

REPORT FOLLOW-UP

AGENCY: DEPARTMENT OF ENVIRONMENTAL QUALITY – DRINKING WATER STATE REVOLVING FUND

On April 3, 2006, the Legislative Services Office released an audit for the DEQ – Drinking Water State Revolving Fund (DWSRF) for fiscal year 2005. The DWSRF was contacted on June 21, 2006, and this follow-up report addresses how DWSRF has responded to the two findings and recommendations contained in that report.

STATUS OF RECOMMENDATIONS:

FINDING #1 – The accounting structure was unnecessarily cumbersome and inefficient. The prior audit noted that the Department used three separate funds to account for the DWSRF's activities when one would suffice. The Department was still using three funds. One fund is used to record loan repayments; a second fund, which has a negative balance, records disbursements; and a third fund accounts for miscellaneous transactions, such as recording interest earnings. Also, the Department unnecessarily used separate program codes for different types of loan transactions, leading to multiple codes for each loan. This makes accounting more difficult and weakens internal controls.

We recommended that the Department eliminate unnecessary funds and program codes.

AUDIT FOLLOW-UP – The Department has eliminated the unnecessary funds, and now has one fund for the State matching fund appropriation and one for all other transactions. The Department has also reviewed and eliminated many program codes, with most having an elimination date of June 30, 2006. **STATUS – CLOSED**

FINDING #2 – The accounting had errors and was not completed in a timely manner. In the prior audit, we noted several accounting errors, and that the financial statements were not completed in a timely manner. This was again found to be the case. For example:

- Some financial statement amounts did not agree with supporting documentation. In one instance, loan interest received in STARS did not agree with loan interest received in the loan accounting system.
- Many cash transactions reported on the Statement of Cash Flows did not agree with the underlying amounts on the balance sheet and income statement, and adjustments were necessary.

We recommended that more than one person be trained to complete DWSRF's accounting, and that management provide more timely oversight and review. The Department should also generate accounting reports in a timely manner, complete timely reconciliations, and consider a new accounting system.

AUDIT FOLLOW-UP – The Department has cross-trained employees to complete the accounting. Management also ensures that reconciliations are completed and that the accounting is correct. The Department is also in the final stages of implementing a new accounting system. **STATUS - CLOSED**